

ASSEMBLY BILL

No. 579

Introduced by Assembly Member Swanson

February 21, 2007

An act to amend Section 7115 of the Government Code, and to add Sections 17237 and 24384.7 to the Revenue and Taxation Code, relating to military base recovery areas.

LEGISLATIVE COUNSEL'S DIGEST

AB 579, as introduced, Swanson. Income and corporation taxes: deduction: net interest.

The Personal Income Tax Law and the Corporation Tax Law authorize various tax incentives with respect to local agency military base recovery areas.

This bill would, under both laws, allow a deduction for the amount of net interest received by a taxpayer in payment on indebtedness of a person or entity engaged in the conduct of a trade or business located in a local agency military base recovery area. This bill would also require a specified report to contain specified information regarding financial information in connection with local agency military base recovery areas, as provided.

This bill would require the governing body of a local agency military base recovery area to provide information to be used in the preparation of this report.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement shall be made pursuant to these statutory provisions for costs mandated by the state pursuant

to this act, but would recognize that local agencies and school districts may pursue any available remedies to seek reimbursement for these costs.

Vote: majority. Appropriation: no. Fiscal committee: yes.
 State-mandated local program: yes.

The people of the State of California do enact as follows:

1 SECTION 1. The Legislature finds and declares all of the
 2 following:

3 (a) The health, safety, and welfare of the people of California
 4 depend upon the development, stability, and expansion of private
 5 business, industry, and commerce, and that there are certain areas
 6 within the state that have been and will be severely economically
 7 impacted because of the closure of military bases by the federal
 8 Department of Defense.

9 (b) The closure of 29 major military bases resulted in a loss of
 10 nearly 54 percent of the state’s military personnel since 1988 which
 11 translates into a loss of more than 93,000 California military and
 12 civilian jobs. California has recaptured less than 60 percent of
 13 those jobs since the rounds of base closures began. Military base
 14 closures have resulted in a loss of \$10 billion in annual revenues.

15 (c) That many communities want and need to attract new
 16 business and private investment to compensate for the loss of
 17 revenue that occurs when a military base closes or downsizes, but
 18 that many communities have insufficient means to do so.

19 SEC. 2. Section 7115 of the Government Code is amended to
 20 read:

21 7115. ~~The~~*In addition to the requirements of Section 70851,*
 22 *beginning in October 2008, the department shall biennially submit*
 23 *a report to the Legislature on or before July 1, 1996, and every*
 24 *year thereafter, which:*

25 (a) Evaluates the effect of the program on employment,
 26 investment, and incomes, and on state and local tax revenues in
 27 designated local agency military base recovery areas. *Among other*
 28 *information, the report shall indicate, by local agency military*
 29 *base recovery area, the amount of private debt and equity*
 30 *investments made within the area during the reporting period and*
 31 *since the transfer of the land from the military.*

1 (b) Indicates whether the number of existing local agency
2 military base recovery areas should be expanded, by how many,
3 and under what applicable time schedules.

4 (c) Information from the Franchise Tax Board on the dollar
5 value of local agency military base recovery area tax credits that
6 are claimed each year by businesses.

7 (d) *A local agency military base recovery area governing body*
8 *shall provide information, at the request of the department,*
9 *necessary for the department to prepare the report.*

10 SEC. 3. Section 17237 is added to the Revenue and Taxation
11 Code, to read:

12 17237. (a) There shall be allowed as a deduction the amount
13 of net interest received by the taxpayer in payment on indebtedness
14 of a person or entity engaged in the conduct of a trade or business
15 located in a local agency military base recovery area.

16 (b) No deduction shall be allowed under this section unless, at
17 the time the indebtedness is incurred, each of the following
18 requirements are met:

19 (1) The trade or business qualifying the lender for the deduction
20 is physically located within a local agency military base recovery
21 area.

22 (2) The indebtedness is incurred solely in connection with
23 activity within the local agency military base recovery area. The
24 taxpayer shall establish loan covenants that require that the
25 proceeds from loans are spent within the local agency military
26 base recovery area.

27 (3) The taxpayer has no equity or other ownership interest in
28 the debtor.

29 (c) Within 90 days of the loan closing, the taxpayer is required
30 to notify the local agency military base recovery area, where the
31 qualifying trade or business is located, of the total amount of
32 indebtedness authorized and whether the indebtedness is
33 appropriate to be reported under the taxpayer's requirements set
34 forth in the federal Community Reinvestment Act.

35 (d) "Local agency military base recovery area" means an area
36 designated as a local agency military base recovery area pursuant
37 to Chapter 12.97 (commencing with Section 7107) of Division 7
38 of Title 1 of the Government Code.

39 SEC. 4. Section 24384.7 is added to the Revenue and Taxation
40 Code, to read:

1 24384.7. (a) There shall be allowed as a deduction the amount
2 of net interest received by the taxpayer in payment on indebtedness
3 of a person or entity engaged in the conduct of a trade or business
4 located in a local agency military base recovery area.

5 (b) No deduction shall be allowed under this section unless, at
6 the time the indebtedness is incurred, each of the following
7 requirements are met:

8 (1) The trade or business qualifying the lender for the deduction
9 is physically located within a local agency military base recovery
10 area.

11 (2) The indebtedness is incurred solely in connection with
12 activity within the local agency military base recovery area. The
13 taxpayer shall establish loan covenants that require that the
14 proceeds from loans are spent within the local agency military
15 base recovery area.

16 (3) The taxpayer has no equity or other ownership interest in
17 the debtor.

18 (c) Within 90 days of the loan closing, the taxpayer is required
19 to notify the local agency military base recovery area, where the
20 qualifying trade or business is located, of the total amount of
21 indebtedness authorized and whether the indebtedness is
22 appropriate to be reported under the taxpayer’s requirements set
23 forth in the federal Community Reinvestment Act.

24 (d) “Local agency military base recovery area” means an area
25 designated as a local agency military base recovery area pursuant
26 to Chapter 12.97 (commencing with Section 7107) of Division 7
27 of Title 1 of the Government Code.

28 SEC. 5. No reimbursement shall be made pursuant to Part 7
29 (commencing with Section 17500) of Division 4 of Title 2 of the
30 Government Code for costs mandated by the state pursuant to this
31 act. It is recognized, however, that a local agency or school district
32 may pursue any remedies to obtain reimbursement available to it
33 under Part 7 (commencing with Section 17500) and any other
34 provisions of law.

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